

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: September 25, 2007

IBA Report Number: 07-94

City Council Docket Date: October 8, 2007

Subject: Proposed Amendment to Statement of Fiscal Year 2008 Budgetary Principles

OVERVIEW

On July 23, 2007, the City Council adopted the Statement of Fiscal Year 2008 Budgetary Principles, which focuses on setting budgetary operating principles, establishing budget authority regarding service levels, and enhancing communication on management issues between the executive and legislative branches for Fiscal Year 2008.

During discussion of the item at the City Council meeting, and in order to address possible deficiencies in the proposed principles, the City Attorney's Office suggested the addition of a 3% cumulative cap on budgetary reductions the Mayor may undertake for fiscal reasons. It was directed that the concept of a cumulative cap on reductions be referred to the Budget and Finance Committee for further discussion.

On September 12, 2007, the Budget and Finance Committee reviewed the proposed amendment to the Statement of Fiscal Year 2008 Budgetary Principles to incorporate a cumulative cap on reductions of 3% to the General Fund, and also to other Major Funds, which were defined as the Water and Sewer Funds. During the committee discussion, Councilmember Frye requested the addition of the Development Services and Airports Funds as other Major Funds to be subject to the 3% cap. In addition, it was requested that the time frame for notification to the City Council be more specifically defined than "as soon as practicable."

FISCAL/POLICY DISCUSSION

The current Statement of FY 2008 Budgetary Principles contains no restrictions on the cumulative amount of budgetary reductions, and as currently stated, could technically result in the ability of the Mayor to make General Fund reductions totaling \$155 million without notification to the Council. This could occur if the Mayor made all of the allowable, incremental cuts as defined in the principles, across all departments. This would not be within the spirit of the principles but would technically be permitted within the stated criteria, unless a cumulative cap is put in place.

Attached is a redlined version of the Statement of Fiscal Year 2008 Budgetary Principles, which includes the addition of language to incorporate a 3% cumulative cap for the General Fund, and Water and Sewer Funds. This language has been further revised to address the requests of the Budget and Finance Committee to include the Development Services and Airports Enterprise Funds, and to specify that notification once the cumulative cap is reached occur no later than the Mayor's next quarterly report to the City Council.

A **3% cumulative cap** would not allow budgetary reductions across departments within the General Fund to exceed \$33.2 million for Fiscal Year 2008 without notification to the City Council.

The table below shows the FY 2008 operating budget of each affected fund and the respective 3% cumulative cap.

FUND	FY 2008 OPERATING BUDGET	3% CUMULATIVE CAP
General Fund	\$1,106,330,952	\$33,189,929
Water Fund	\$360,379,277	\$10,811,378
Sewer Fund	\$369,767,582	\$11,093,027
Development Services	\$53,047,886	\$1,591,437
Airports	\$2,864,304	\$85,929

The Budget and Finance Committee unanimously recommended the adoption of the revised Statement of Fiscal Year 2008 Budgetary Principles, with the inclusion of these two funds and more specificity on the notification time frame.

CONCLUSION

The IBA recommends the City Council adopt the amendment to the Statement of Fiscal Year 2008 Budgetary Principles to include a 3% cumulative cap on budgetary reductions that the Mayor can make for fiscal reasons. Limiting the dollar value of potential budgetary reductions that can be made without notification to the City Council and the public provides greater protection for the expected provision of current levels of service, based on the adopted City budget.

As previously discussed, the Statement of Fiscal Year 2008 Budgetary Principles is in effect for the current fiscal year only. Its value and effectiveness can be continually assessed, with further amendments made, if needed.

[SIGNED]

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[SIGNED]

APPROVED: Andrea Tevlin
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Attachment: Revised Statement of FY 2008 Budgetary Principles